Service Date: September 8, 1986

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER o£ the Application	)	
of MONTANA-DAKOTA UTILITIES for	)	UTILITY DIVISION
Authority to Establish Increased	)	DOCKET NO. 86.5.28
Rates for Electric Service.	)	INTERIM ORDER NO. 5219

FINDINGS OF FACT

1. On May 23, 1986, Montana-Dakota Utilities Company (MDU, Company, Applicant) filed with the Commission a general rate increase application for electric service. The filing was assigned Docket No. 86.5.28.

2. The application seeks an annual increase in revenue of $4,549,702. Rate schedules filed with the application reflect an overall increase of 14.6% for electric service rendered in Montana.

3. Included in the general filing was a request for interim relief in the amount of $1,940,753.

4. Pursuant to the Commission's rules on interim rate increases, ARM sections 38.5.01, et seq;, Applicant has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel (MCC), parties to Applicants most recent rate application, and to media of general dissemination state wide. The notice advised interested parties to advise the Commission quickly of any comments relative to the request.

5. In its motion for temporary rate increase, MDU stated that the amount of the requested interim relief has been calculated based upon the adjustments, methodologies, and rate of return contained in the Company's last Montana general electric rate order (Docket No. 83.9.68, Order No. 5036b), pursuant to the Commission's Rules on interim rate relief.

PUBLIC SERVICE COMMISSION ADJUSTMENTS

6. Unless otherwise stated herein, the Commission accepts MDU's proposed interim adjustments except for those discussed and altered below and throughout the remainder of this Interim Order. All Commission adjustments below, therefore, are made to MDU's proposed pro forma revenues, expenses, and rate base.

KVAR Revenues

7. The KVAR charge represents a penalty assessed by the Company in accordance with the Power Factor Clause stated on the currently effective electric rate tariffs. The Company believes these charges should not be considered as revenue because they represent a nonrecurring penalty charge to the ratepayer. In response to MCC Discovery Audit Data Request No. 8, MDU provided a schedule of KVAR revenues from 1980 to the present. These revenues, when taken as a simple average, came to $21,262 per year. In 1981, these revenues were $28,454, substantially higher than all other years. Excluding the abnormally high revenues of 1981, the simple average comes to $19,953 per year. These calculations reflect, in the Commission's view, a stable, recurring flow of KVAR revenue to MDU.

8. In response to Data Request No. PSC-82 the Company stated, "The Montana Public Service Commission approved the elimination of KVAR charges in Order No. 5036b of Docket No. 83.9.68." After reviewing Orders No. 5036a, 5036b and the testimony pertaining to all MDU proposed revenue adjustments in Docket 83.9.68, the Commission can find no reference to any elimination of KVAR revenues in the previous case.

9. The revenues from KVAR charges may not come from the same customer each year, but the Company has undeniably received a relatively constant stream of revenues from this charge for each year from 1980 through the first six months of 1986. Indeed, the Company has received $10,600 from KVAR charges during the first half of 1986 (MDU Response to MCC Discovery Audit Data Request No.8). Annualized, that figure would be $21,200, which is very similar to the annual revenues from this charge over the 1980 through 1985 time period. Exclusion of such revenues from MDU' s pro forma level of revenues would be improper because they reflect constant annual

revenues paid by Montana electric customers. In light of this analysis, the Commission believes it is appropriate to include the $21,949 level of 1985 KVAR revenues for interim purposes.

Fuel and Purchased Power

10. The Company proposed to decrease pro forma expenses by $104,341 to reflect decreased power purchases and increased fuel costs associated with the incremental purchases of the Coyote and Big Stone Plants, as well as the retirement of the Williston and Glendive steam plants.

11. The Commission wishes to investigate the purchase of these plants on both an energy and peak basis, as was stated in Finding of Fact No. 70 of Order 5036a. Because the Commission believes these items may be contested in the rate case, all associated adjustments will be disallowed for interim purposes.

12. After reviewing the Applicant's workpapers, the Commission finds a reversal of the proposed $104,341 expense adjustment to be proper for interim purposes.

Captive Coal Fuel Adjustment

13. In its interim request, the Company did not include a captive coal adjustment. In data request no. PSC-90, the staff requested that MDU provide this adjustment. The Applicant replied: "The Company has not performed any captive coal adjustments, and the requested information is not available."

14. After several telephone calls to the Company by the staff, the Commission finally received the adjustment from MDU on August 25, 1986. After reviewing the Company's captive coal workpapers, the Commission finds a reduction in captive coal expense of $352,000 and a reduction in rate base for fuel stocks of $37,411 to be proper for interim purposes.

15. This adjustment was accepted by the Commission in MDU's most recent general electric rate case. Therefore, according to the interim rules, it must be considered in determining the Company's interim revenue requirements. These interim rules were established by the Commission to aid the companies in their request for timely interim relief. The Applicant failed to comply with the interim rules and the Commission wants MDU to know that all future interim applications will

be carefully scrutinized for compliance with the interim rules. Noncompliance may result in full denial of interim relief.

Plants Retired in 1985

16. The Company included a decrease to labor costs associated with plants retired in 1985 as an adjustment to salaries and wages. These costs must be added back for interim purposes because the retirement of these plants may be a contested issue. Therefore, the Commission believes that expenses for these retired plants should fully reflect the cost to maintain these plants for the entire test year. This adjustment therefore increases the Company's labor cost by $18,705.

17. The Company proposed an adjustment to eliminate operating and maintenance expenses associated with plants retired in 1985. Pursuant to the discussion in Finding of Fact No. 16, the Commission believes an increase of $22,358 to the Company's pro forma operation and maintenance expenses to reflect the inclusion of plants to be retired is warranted for interim purposes.

18. The Commission also believes it is appropriate to adjust rate base to include an additional two months of these retired plants in the average rate base calculation. This adjustment represents $39,878 in additional rate base.

19. Depreciation expense associated with the retired plants would have been higher if the Company had not removed these plants from rate base. Two months of depreciation for the retired plants results in an increase of $1,322 to the Company's pro forma depreciation expenses.

Additional Coyote O & M Expenses

20. The Company proposed an adjustment to reflect additional operating and maintenance expenses associated with the 5.26 MW Coyote purchase in September of 1985. Pursuant to the discussion in Finding of Fact No. 11, a reduction of $51,714 to the Company's pro forma expenses is warranted for determination of interim revenue requirements.

Annualization of Depreciation on Coyote & Big Stone

21. The Company proposed a $37,699 increase to pro forma depreciation expense to annualize the two plant increments added during the test year. Since the Commission has made no determination as to whether or not it is proper to include these plant increments in rate base, this adjustment will be disallowed for interim purposes. Therefore, the Commission finds a reduction of $37,699 to the Company's proposed pro forma level of depreciation expense to be proper in this interim proceeding.

Acquisition Adjustment

22. MDU purchased the 1985 Coyote and Big Stone plant increments at a cost exceeding net book value. That portion of the cost is referred to as an acquisition adjustment. The Company proposes to recover this cost in rates by amortizing it over the remaining life of the plants. MDU also proposes to carry the unamortized portion in rate base. The Commission intends to look closely at this issue when determining the Company's revenue requirements for the final order; therefore, the Commission finds the disallowance of all adjustments associated with the two new plants to be proper in this interim proceeding pending a thorough investigation. This represents a reduction of $54,062 to the Company's proposed pro forma depreciation expense.

Rate Base Annualization

23. The Company proposed a $2,054,815 rate base increase to annualize the 1985 Big Stone and Coyote plant additions. The Commission stated in Finding of Fact No. 11 that all adjustments associated with these plant increments would be disallowed. The Commission further believes that these plant increments should be eliminated from the Company's per books rate base. Therefore, the Commission finds a related rate base reduction of $4,109,630 to be proper in this interim proceeding.

24. Finding of Fact No. 23 excludes both the per books entries and the annualization adjustment of the 1985 Coyote and Big Stone plant increments from rate base. In keeping with that same logic, the Commission must also exclude per books entries, as well as annualization

adjustments, pertaining to accumulated depreciation and amortization associated with the two plant increments. These adjustments represent an increase to rate base of $91,760.

Association Dues

25. In Order No. 5036b, the Commission made an adjustment to eliminate 25% of the Company's EEI dues. The Company failed to make this adjustment in its request for interim relief. In response to Data Request number PSC-88, the Company recalculated their adjustment to reflect this oversight. The recalculation results in a reduction o' 63,886 to dues expense, which the Commission finds to be proper in this interim proceeding.

Construction Overheads Adjustment

26. MDU proposed to utilize its new rates in computing construction overheads in this filing. In response to Data Request No. PSC-78, MDU provided related calculations in conformance with the treatment approved in Order No. 5036b of Docket No. 83.9.68. In keeping with the methodology applied in the previous order, the Commission finds a reduction of $22 to depreciation expense and a related $261 rate base reduction to be proper in this interim proceeding.

Payroll Taxes

27. Adjustments to the Company's labor expenses necessitate an adjustment to payroll taxes. An increase of $1,337 to payroll taxes is proper for determining the Company's interim revenue requirements.

PSC Tax

28. A newly instituted tax of 0.225% is to be levied against all privately owned utilities that provide service to customers in the State of Montana. The level that appropriately reflects the Company's Pro Forma operating revenue for interim purposes is $70,338. Therefore, the Commission finds an increase in taxes of $70,338 to reflect the PSC tax to be proper in this interim proceeding.

MCC Tax

29. On July 1, 1986 the MCC Tax was changed from 0.1% to 0.03%. The Commission views this as a known and measurable change, and therefore finds a reduction of $21,883 to the Company's MCC tax to be proper in this interim proceeding.

Pro Forma Interest Expense

30. Using the adjusted rate base, the Commission calculated an adjusted tax effect of interest on construction. By utilizing the approved interim rate base and the weighted cost of long term debt approved in Order 5036b, the Commission finds an increase in State and Federal income taxes of $79,932 to be proper in this interim proceeding.

Revenue Requirement

31. The following table shows that additional annual revenues in the amount of $94^,582 are needed by the Applicant in order to provide the opportunity to earn an overall return of 10.45 percent:

MONTANA-DAKOTA UTILITIES COMPANY -- Docket No. 86.5.28
INTERIM Revenue Requirements Chart
To Produce 10.45% Rate of Return
Test Year: December 31, 1985

	MDU Interim Pro Forma	PSC Adjust. To MDU Int. Pro Forma	PSC Accepted Interim Pro Forma	Increase Required for 1045% Ret.	Total
Operating Revenues	31,879,761	21,949	31,901,710	942,582	32,844,292
Expenses:					
Fuel & Purch. Power	8,626,573	(247,659)	8,378,914		8,378,914
Operating & Maint.	8,794,457	(14,538)	8,779,919		8,779,919
Total	17,421,030	(262,197)	17,158,833		17,158,833
Depreciation	3,705,439	(90,461)	3,614,978		3,614,978
Taxes - None Income	1,426,479	49,792	1,476,271	2,403	1,478,674
Fed and State Tax	1,940,876	241,186	2,182,062	466,752	2,648,814
Deferred Income Tax	1,121,045				1,121,045
I.T.C.	260,326				260,326
Amort of I.T.C.	(6,297)				(6,297)
Total Operating Exp	24,868,898	(61,679)	25,807,219	469,155	26,276,374
Amort Pre-1974 Gain	14,000		14,000		14,000
Operating Income	6,024,863	83,628	6,108,491	473,427	6,581,918
Rate Base	67,000,530	(4,015,672)	62,984,858		62,984,858
Rate of Return	8.99%		9.70%		10.45%

Cost of Service/Rate Design

32. Given the interim increase of $942,582, there are two general issues requiring Commission decisions. The first is interclass revenue responsibility, and the second is rate design within a given class. The following findings address each issue in turn.

33. Regarding the interclass revenue responsibility, there appears some agreement between MDU and the MCC positions. Both agree that the rates for Private Lighting Class, (Rate 24) should not be increased in the interim or the final orders. The Commission finds it appropriate to exclude the private lighting class from any rate increase.

34. In terms of recovery of the interim increase in the revenue responsibility the Commission finds merit in not applying a uniform percent increase to all rates and charges as was done in Docket No. 85.7.30 on an interim basis. The Company and the MCC appear to have some agreement in the level of base rates for each customer class. In all rate classes except the Feed Grinding Class, (Rate 27), MDU and the MCC proposed the same base rate levels. The Commission finds merit in the acceptance of movement towards non-contested base rate levels for all customer classes, except the feed grinding class.

35. Tariffs for each customer class will be computed utilizing the following process. First, the revenue levels from each customer class must be increased by a uniform percent, except for the Private Lighting Rate 24. The uniform percent is the approved revenue increase divided by the MDU's total electric company revenue in Montana: $942,582/$31,243,227. Second, in classes where base rates exist, increase the base rate to the agreed upon level. In the case of Feed Grinding Rate 27, increase the base rate only to the level proposed by the MCC. If the base rate level increase produces more revenue that is required from the class from step one, then only increase the base rate to the level that will produce the allowed amount. Third, for any residual revenue levels not collected through the base rate increase, increase all other rates and charges for the customer class by a percentage that is necessary to collected the revenue levels provided from step 1.

36. Base rate increases per customer class shall not exceed:

Residential Rate 10		$ 1.00
Non-demand General Service Rate 20	3.50	
Demand General Service Rate 22	1.50	
Industrial Service Rate 30	10.00	
Irrigation Rate 25		1.50
Feed Grinding Rate 27	.75	
Private Lighting Rate 24	0	
Street Lighting Rate 41	0	
Municipal Pumping Rate 48	3.50	

CONCLUSIONS OF LAW

1. Applicant, Montana-Dakota Utilities Company, is a corporation providing service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides, in part, "The Commission may, in its discretion, temporarily approve increases pending a hearing or final decision.

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to Montana-Dakota Utilities Company. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this order are found to be unjustified in the final order in this Docket.

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Montana-Dakota Utilities Company, is hereby granted authority to implement on an interim basis increased rates designed to generate $942,582 in additional revenues on an annual basis.

2. Montana-Dakota Utilities Company is to file revised rate schedules using the process outlined in Findings of Fact 32 through 36.

3. Rate schedules filed shall comport with all Commission determinations set forth in the Interim Order.

4. Interim revenues granted herein are subject to rebate should the final order in this docket disapprove this interim revenue increase. Pursuant to the amendment of Section 69-3-302(2), MCA, approved by the 48th Legislature, and effective October 1, 1983, the rebate interest rate will be the cost of equity capital last determined by the Commission, which is 13.35 percent.

5. Nothing in the Interim Order precludes the Commission from adopting in its final order, after review of the entire record in this docket, a revenue requirement different from that contained in this order.

6. The interim relief granted in this order is to be effective for electric service rendered on and after September 5, 1986.

DONE IN OPEN SESSION at Helena, Montana, this 5th day of September, 1986, by a 3 to 1 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner
Voting to Dissent

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell
Acting Secretary

(SEAL)